

GAMMA COMMUNICATIONS PLC FY14 RESULTS

March 2015



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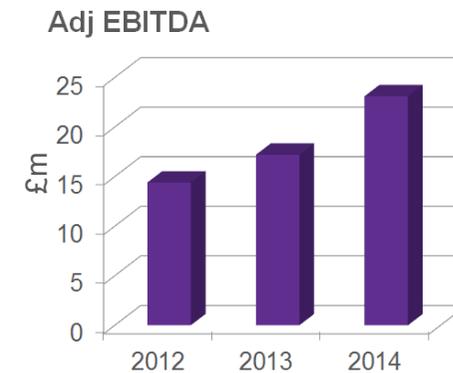


Highlights of the year

Strong growth across the business

	Dec 2013	Dec 2014	Growth %
Channel Partners	627	725	+16%
SIP Trunks	161,000	234,000	+45%
Cloud PBX users	43,000	80,000	+86%

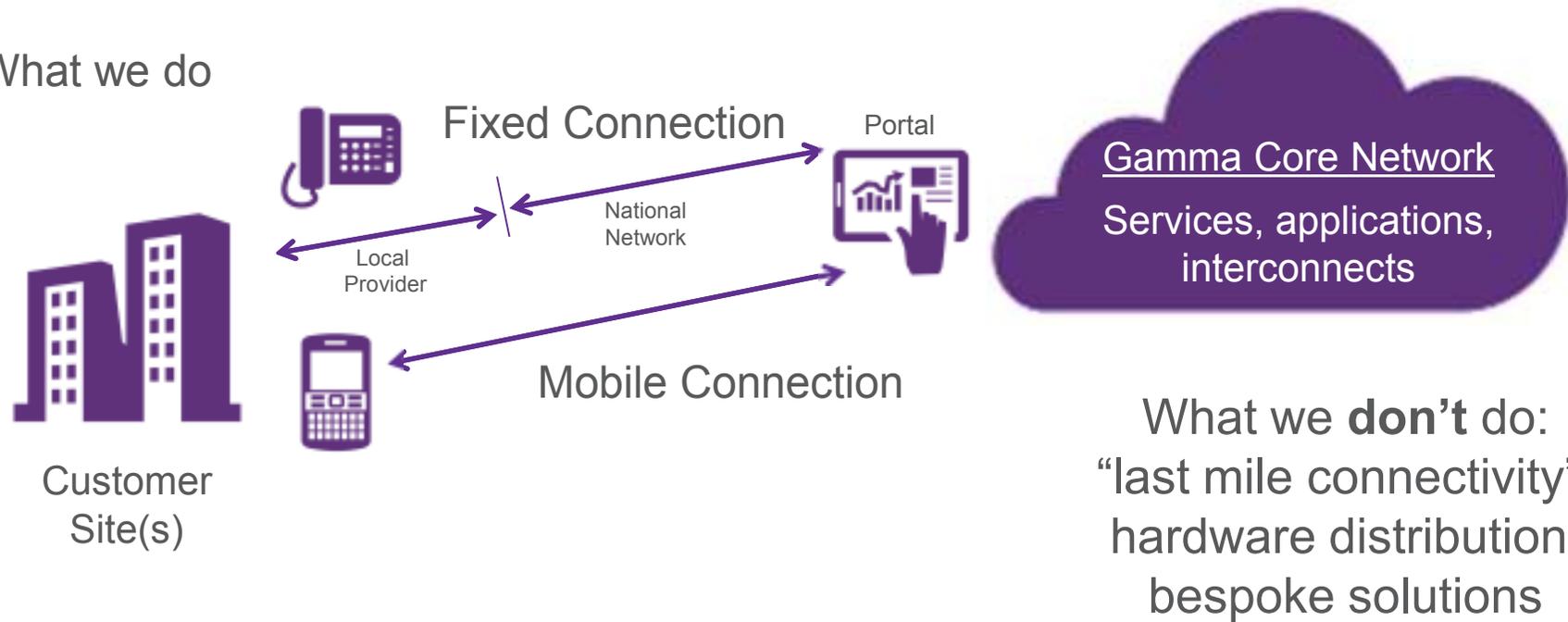
- Good growth in other services and traditional services held steady
- 72% of Gross profit came from partners selling > 4 key products (2013:62%)
- Strong revenue and margin growth in direct sales, with wins including BDO, London Stock Exchange, Hearst Magazines, Moore Stevens, Oxford, Bristol, and Ulster Universities
- Strong product pipeline with continuing focus on development
- Opportunistic but strategic capital investment in fixed/mobile convergence
- Final earn out payment for Varidion of incremental £2.6m



Gamma overview

Gamma is a technology based provider of advanced communications services to the UK business market with c80% of its sales via the channel

What we do



What we **don't** do:
“last mile connectivity”;
hardware distribution;
bespoke solutions



Our position in the market

Traditional telco markets



ISDN

- Traditional fixed line voice communications
- Declining 6% per annum

Being replaced by



Gamma's "new-generation" markets

SIP Trunking (Business grade VoIP)

- Calls are carried over data lines instead of traditional voice lines
- Growing at c. 45%, market share 16%
- Market size of **£819m** p.a. anticipated by 2018



PBX

- On-site phone systems for call management
- Declining 8-10% per annum



Cloud PBX (Phone system in the Cloud)

- Supports multiple customers with advanced features
- Growing at c. 22%
- Market size of **£650m** p.a. anticipated by 2018 (incl. handset and setup charges)



Leased Lines

- Networking circuits
- Declining 8% per annum



Ethernet (High speed data connection)

- Data connectivity for internet access, business applications and business networks
- Market CAGR growth of c. 11%



Creating new market



Inbound (Managing inbound phone calls)

- A service that manages the routing and delivery of inbound calls
- Market size – no data, potential for all UK businesses



Sources: Illume Consulting - Hosted VoIP Report and Forecast (2014-2018) ‡ Estimated channel market



FINANCIALS



Income statement

- Continued organic growth driven by strategic services (SIP, Cloud PBX and Inbound)
- Repeating revenues remains high
- 79% of revenue from Indirect channel
- Improving gross profit margins due to favourable product mix
- Exceptional items are principally IPO costs (£1.2m) and book loss on settlement of Varidion earn out (£0.6m)
- Share based charges reflect levels of options granted pre-float – will remain at this level for next three years
- Strong growth in adj. EPS
- Proposed final dividend of 3.95p

Years ended 31 December (£m)	2012	2013	2014	Growth
Revenue	137.2	148.7	173.2	+16.4%
Cost of sales	(92.3)	(94.8)	(105.6)	
Gross profit	44.9	53.9	67.6	+25.4%
<i>Gross profit margin</i>	32.7%	36.2%	39.0%	+280bps
Adj operating expenses*	(30.5)	(36.7)	(44.5)	
Adj EBITDA**	14.4	17.2	23.1	+34.3%
<i>Adj EBITDA margin</i>	10.5%	11.6%	13.3%	
Exceptional items	-	-	(2.0)	
Depreciation and amortisation	(4.5)	(4.8)	(6.4)	
Share based charges	(0.2)	(0.9)	(3.2)	
Operating profit	9.7	11.5	11.5	Nil
Finance income / expense	-	-	-	
Profit before tax	9.7	11.5	11.5	Nil
Tax expense	(2.0)	(2.2)	(2.1)	
Profit after tax	7.7	9.3	9.4	+1.0%
Adjusted EPS (Pence)	8.5	10.8	15.0	+38.9%

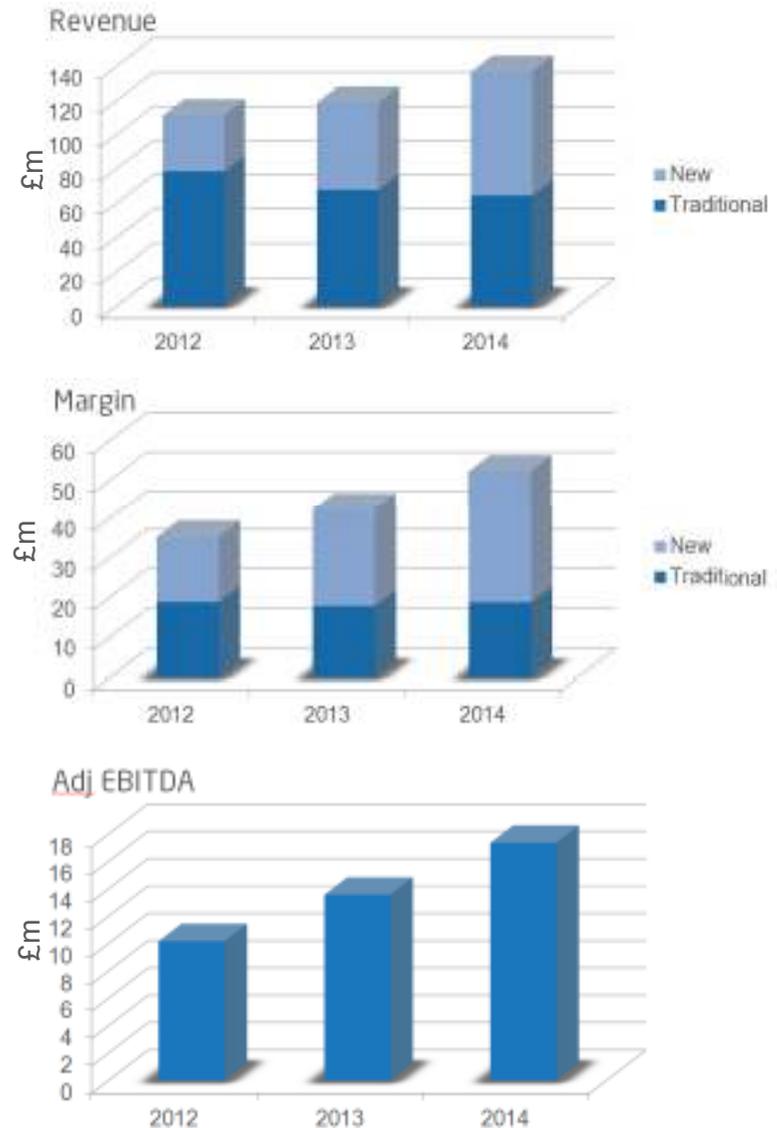
Notes: *Operating expenses before IPO costs, depreciation, amortisation and share based charges

**EBITDA before share based payments and exceptional



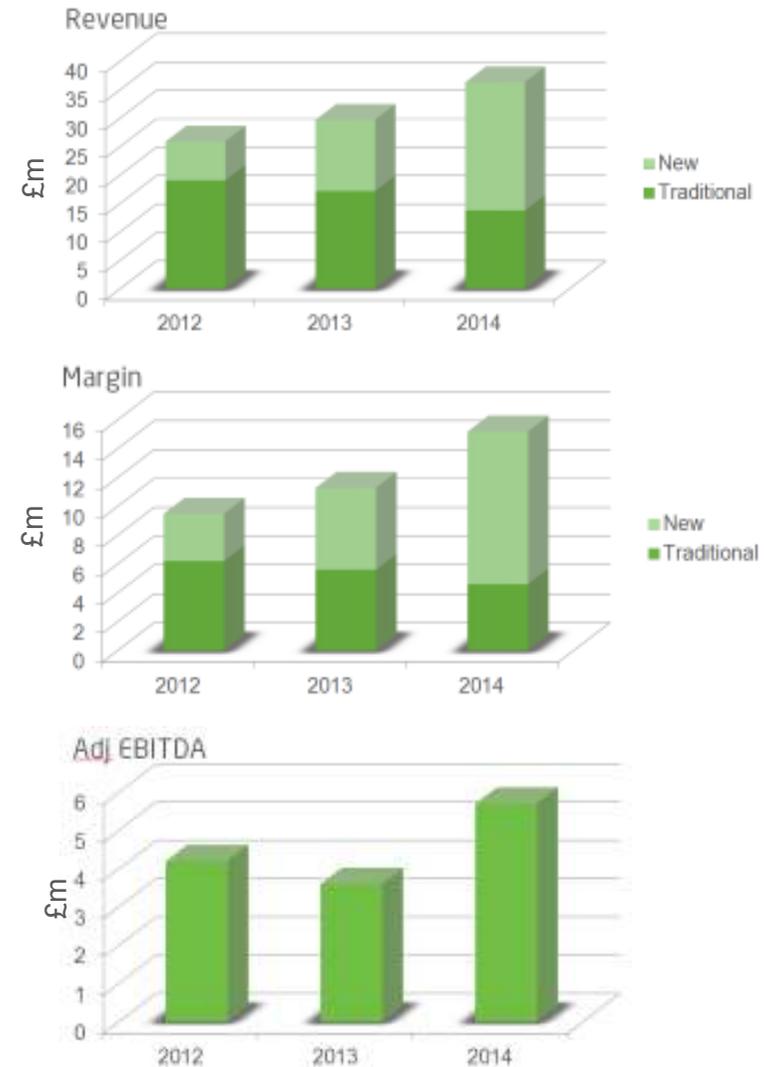
Indirect business

- Positive shift in mix of Traditional and New (Strategic and Enabling) services at both revenue and gross margin
- Strong increase in Strategic services—especially SIP Trunking and Cloud PBX
- Traditional calls and lines holding up and beating the market structural decline
- Margin increased from 36% (2013) to 38%: mix and falling cost base
- Adj. EBITDA margin increased from 11.4% to 12.7%



Direct business

- Direct business growing due to Strategic services
- Margin increased from 38% (2013) to 42% - due to mix
- Adj. EBITDA margin increased from 12.1% to 15.7% (2013 was suppressed due to significant commission payments made to mobile dealers (written off as incurred))



Balance sheet and cash flow

- Significant cash reserves, and remain debt free
- Capex in year high:
 - £10.2m on capital items
 - £0.9m of internal development
 - £1.0m of Customer Premises Equipment – expected to grow
- Consistent cash generation
- Cash conversion 84% average over three years (2014 lower due to IPO)
- Other non-trading cash outflows:
 - £2.6m – Deferred consideration
 - £3.1m – Share buybacks and cancelations

Balance Sheet as at 31 December (£m)	2012	2013	2014
Non-current assets (incl. PPE)	23.3	24.6	32.0
Receivables and inventories	22.6	26.9	33.6
Cash	7.2	14.6	13.4
Current assets	29.8	41.5	47.0
Total assets	53.1	66.1	79.0

Non-current liabilities	3.1	3.3	1.1
Current liabilities	22.2	25.9	26.7
Total liabilities	25.3	29.2	27.8

Share capital	2.5	2.5	5.7
Other reserves	0.7	1.1	2.4
Retained earnings	24.6	33.3	43.1
Total Equity	27.8	36.9	51.2

Cash Flow Statement as at 31 December (£m)	2012	2013	2014
Adj EBITDA*	14.4	17.2	23.1
Net Cash inflow from Operations (pre-tax)	10.4	16.3	19.4
<i>Cash conversion</i>	72.2%	94.8%	84.0%
Taxation	(1.2)	(2.3)	(3.0)
Capital Expenditure	(2.6)	(5.9)	(12.1)
Cash inflow before Acquisitions and Financing	6.6	8.1	4.3

Notes: *EBITDA post share based payments



OPERATING REVIEW



Indirect business

- Revenue up 15% to £136.9m (FY13: £119.0m)
- Gross margin up 23% to £52.4m (FY13: £42.6m)

Channel partners

- Growth from 627 to 725 channel partners billing in excess of £500/mth
- Estimated indirect sales force of c10,000
- Top 10 are 26% of group revenue – major channel partners include Alternative Networks, Azzurri, Daisy, Capita IT, Focus, HighNet, Sabio
- Over a third (and growing) of partners sell Horizon (Cloud PBX)
- Much greater diversity amongst new channel partners - from start-ups to public companies; IT Companies to SIs to on-line and call centre retailers
- Full white label “Simplicity” services helping growth
- 850 people trained on services in 2014



Direct business

- Revenue up 22% to £36.3m (FY13: £29.7m)
- Gross margin up 35% to £15.2m (FY13: £11.3m)

Enterprise and Public Sector

- Services in this sector may be tailored and non-standard services selectively introduced
- Major enterprise wins include BDO, London Stock Exchange, Hearst Magazines & Moore Stephens
- 65% of wins were for converged voice and data services
- Public Sector wins include Catalyst and East Thames Housing Trusts
- University wins include Oxford, LSE, Bristol & Ulster Universities – total Universities *directly* supplied now 33
- Awaiting response on delayed new Public Sector ‘Network Services’ Framework application



Direct business (cont'd)

SME and Mid-Market

[NB – focussed on standard products to the mid-market]

- Solid growth with many new wins e.g. West Bromwich BS, Haymarket Media, Home Energy, Concur Technologies
- New customers double the size of leaving customers
- Many contract renewals and expansions e.g. American Golf
- Very strong position with multi-sited businesses
- Customer service perceived highly (NPS +22.3%)



Growth strategy

External influences

- Consolidation amongst larger operators (e.g. BT & EE) focussed on bundled residential offerings
- Ofcom announcement of wide ranging Strategic Review of the market
- Businesses increasingly planning to buy communications services from a single supplier

Our plan

- To focus on expanding in high growth markets where our position and proposition is strong
- Manage decline in Traditional services
- Focus on developing converged services for the business market



Converged fixed and mobile products

- Currently have a 'light' mobile virtual network – longer term strategic objective is to provide integrated fixed and mobile service
- In December 2014 we opportunistically acquired the 'core' of a mobile network – materially reduces the timescales and costs to deliver upon our strategy
- Following development activity planned for 2015, we anticipate bringing the assets into active use in 2016
- This will both reduce the costs of sale and enable more converged services



The Future

Short term

- Exploit market leading position on SIP Trunks and Cloud PBX (Horizon)
- Launch bundled services for SMEs to encourage cross-selling by partners
- Launch of multi-site private data networks in June
- Continue to invest in tools and processes to improve operational gearing

Medium term

- Examine strategic and accretive acquisition opportunities and potential new products such as video and hosted contact centres
- Develop new mobile service and converged offerings
- Massive opportunity to lead the market



THANK YOU

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